



Communications and Digital Committee

Uncorrected oral evidence: The future of Channel 4

Tuesday 19 October 2021

2.55 pm

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Members present: Lord Gilbert of Panteg (The Chair); Baroness Bull; Baroness Buscombe; Viscount Colville of Culross; Lord Foster of Bath; Lord Griffiths of Burry Port; Lord Lipsey; Baroness Rebuck; Lord Stevenson of Balmacara; Baroness Stowell of Beeston; The Lord Bishop of Worcester; Baroness Featherstone; Lord Vaizey of Didcot.

Evidence Session No. 8

Heard in Public

Questions 61 - 66

Witnesses

I: Julia Lopez MP, Minister of State, Department for Digital, Culture, Media and Sport; Robert Specterman-Green, Director, Media and Creative Industries, Department for Digital, Culture, Media and Sport.

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Examination of witnesses

Julia Lopez MP and Robert Specterman-Green.

Q61 **The Chair:** Welcome to Julia Lopez, the Minister of State at DCMS, who is joining us to give evidence in our inquiry into the future of Channel 4, following the publication of government proposals to consider its future ownership. Julia Lopez is joined by Robert Specterman-Green, who is director of media and creative industries for the department. You are both very welcome. Thank you for taking the time to join us today. A transcript of the evidence will be taken, as is usual, and the session will be broadcast online.

Minister, would you like to start with any brief words of introduction and any overarching points that you want to make? We will then open up to questions from members of the committee.

Julia Lopez: Thank you very much for the introduction and thank you to the committee for having me. This is my first in-person Select Committee appearance. I became a Minister in the virtual world of pandemic Parliament. I was at the Cabinet Office. Part of my brief looked at digital and data within government. I was then moved to DCMS in the September reshuffle, so I have been in place not too long, about three and a half or four weeks. My remit will include broadcast. I am joined by Robert Specterman-Green. Robert is the official who looks after this policy area, and I have an excellent team of officials working on broadcasting issues.

If I think about the priorities that I have and also those of the department, I am very keen that the Secretary of State and I support public service broadcasting, because high-quality content and having UK experience on television are important for the people we serve, and it is an important aspect of global Britain and the soft power that we project.

Public service broadcasting is also extremely important when it comes to the wider creative economy, whether that is independent production or looking at the wider creative skills base and so on. To do that, we need to look at the broad question of how we make our public service broadcasters sustainable, not just in the next couple of years but long into the future. It is that question that we have about that five-, 10- and 20-year outlook that makes us revisit the question of Channel 4 and whether it is in the right ownership in its current structure.

As the committee will know, a recent public consultation has been undertaken asking that question. The Government have suggested that they are minded to sell but that decision is not yet made. The consultation closed in the middle of September and we will be looking at all the responses we have received. This is really about looking at the current financial model of Channel 4. The committee will be familiar with the fact that Channel 4 is not able to access capital in the way that other broadcasters are, which we think poses challenges to its long-term sustainability, and it is not able to own its own content, which again is going to be a challenge, because the entire broadcasting landscape is

changing very rapidly. Again, the committee will be aware of this. We are seeing the entry of American streamers with very deep pockets.

We also question whether the original intention of Channel 4, which was to stimulate the independent production sector, is still an intervention that is required, because the independent production sector has been thriving in recent years. We are very happy that that is the case, but we wonder whether public ownership is still necessary for that to continue into the future.

I hope those comments set out some useful context for you. Robert and I will be happy to answer your questions as best we can. I brought Robert as back-up, because, being in post only a few weeks, I might need some assistance with some of the facts and figures.

The Chair: That is great, Minister. Thank you very much indeed. Let us unpick some of that.

Q62 **Baroness Buscombe:** Thank you, Minister, and it is good to see you, Robert. I have a question that you have had sight of and that you have already touched on: to what extent is Channel 4 unsustainable and over what timescale? What do the Government mean by "sustainability" in this context?

I want to give a little more context to this question for the transcript. The Government have said that "it is the Government's current view, which we are testing through consultation", as you have referenced, "that a change in ownership would be the best way to ensure Channel 4 remains a sustainable, successful broadcaster over the long term. That could allow Channel 4 to diversify its income streams, invest in content and production across the UK with greater access to capital", as you have already referenced, Minister, "and form new strategic partnerships".

We have taken evidence from a number of witnesses over a short period of time. Last week, we had the chief executive and chair of Channel 4. When we touched on this point about investing in content, it was interesting that the chief executive of Channel 4, backed up by the chair, said that it is incorrect to say that a new buyer would spend more money on programming, for example. They might choose to exploit the brand elsewhere and to work out other ways to make money from it abroad, but it is incorrect to say that a different owner would invest more in the company in terms of programming.

Is it programming? What would they invest their money in? The crux of this is really that all of our witnesses who are for privatisation have said that this is an opportunity to get more capital and to have more market power. Michael Grade referenced Channel 4 being a minnow compared with other broadcasters and said that this would be a fantastic opportunity to access more capital. We found that the chair and chief executive were against all of this, disagreeing that this was necessary. Can you deflect that in some way, Minister? It is really important that we ensure that it really is necessary to privatise in order to be sustainable and viable—at the end of the day, this is all about the money—for the

longer term.

Julia Lopez: Yes, certainly. I should say that the Government have not made a decision on whether or not to sell. I come to this without any particular baggage on the question. I will be testing the arguments when I look at those consultation responses.

Looking at it fairly afresh, I would say that there is a concern that there is such a dependence upon advertising revenue within the channel. I think it is 90% of revenue. It is trying to shift some of that into digital channels. It is being successful to an extent on that, but to entrench that digital work is going to require more capital. We all understand that being so reliant on traditional broadcast advertising revenue leaves you with a vulnerability as a broadcaster.

That is set in a context where there is consolidation in the market and where other players are going to have more to invest in content and in trying to grab viewers, so those advertising revenues are at risk. The cost of production itself is also going up quite substantially. Although Channel 4 may not be in such a difficult position at the moment, you have to look at the trends and whether it will be able, in future, to compete with some of those other content producers, particularly if it is not able to make use of the intellectual property because it does not own it.

Baroness Buscombe: Robert, Channel 4 may not be clinging to the wreckage, because it may be sustainable for the short or medium term, but witnesses have said to us that advertising is going to be flat net growth. Where is the money going to come from to keep it sustainable?

Robert Specterman-Green: As the Minister said, the broadcasting sector is going through a huge amount of change. Channel 4 is performing well at the moment. One should recognise the achievements of the current management team. Alex Mahon is doing a very good job. They have recently published a new strategy. A lot of commentators point to their current successes.

What we are trying to do is not ignore the short term but particularly look into the longer term, given the seismic shifts in the way the broadcasting sector is operating. Channel 4, in the way that it is constituted, is really rather uniquely established. It has some rather unique constraints that could hold it back from further growth and from competing and surviving in this fast-moving environment.

One is the point the Minister mentioned around Channel 4's access to capital. It operates in a very different way from other broadcasters. The other is the publisher-broadcaster status, which constrains Channel 4's ability to make content and to leverage the intellectual property that comes with it. When you look at the depth of the pockets of the competition, particularly the big streaming platforms, to continue growing and to build on the early positive steps we are seeing in Channel 4's digital platform, there are legitimate questions about where that investment is going to come from, given those constraints.

As the Minister said, the majority of Channel 4's revenue is from linear broadcasting. It is beginning to grow its digital advertising revenue, but it is still very limited indeed. You need investment to build on the technology, to acquire the content and to leverage that to continue securing the audiences and sustaining the brand for which Channel 4 is very well known. Together that is what we mean by "sustainability". The whole purpose of our consultation was around what is necessary for the long-term sustainability. That is its underlying premise.

Baroness Buscombe: Presumably you have not had an opportunity to meet the chair and chief exec yet.

Julia Lopez: No, I have not yet. I believe the Secretary of State is meeting them next week. I hope to meet them shortly after that. I am very keen to, but, as I have only been here a short time, that has not been able to happen yet. It will be one of the key meetings that I will be seeking to have.

The Chair: Minister, can I just pick you up on the point that Robert made? Channel 4 is broadly doing fine just now but, looking to the longer term, there is at least room for concern about the viability of the business model. That is as yet unproven, which is partly what we are trying to do here. Are you surprised at the response of Channel 4 both to the consultation and to this inquiry? When the chair and chief executive responded to our inquiry, what struck me was that they basically rejected all the arguments for a change in ownership, all the arguments about the funding model and all the arguments about the changing nature of production. They acknowledged that they were happening. They said that everything would be absolutely fine and that you were wrong, broadly—there needed to be no change in ownership, and basically no change at all.

Does it surprise you that they did not come back with a more nuanced argument: that they had weighed up the arguments, understood the changing nature of the world, they could see the benefits of private capital but, on balance, they favoured the existing model? Were you surprised that they did not have a more nuanced response?

Julia Lopez: As a Minister, I will seek a productive discussion about Channel 4. It is unhelpful if it is viewed through the lens of being any kind of attack on Channel 4. My interest as a Minister is the sustainability of a channel that the public values, that I value as a Minister, that has an important role in the public service broadcasting landscape and that we want to see thrive. It should not be viewed through the idea that privatisation is a bad thing that is there to try to unpick some of the things that make Channel 4 so unique and so valued by its viewership.

As I say, I will be seeking a productive discussion with Channel 4, trying to understand the concerns that it has set out. We are still in the process of looking at all the consultation responses. I have started to read through Channel 4's to try to understand its arguments and see to what extent we can address them. Lord Grade made an interesting point about

whether it is appropriate for a taxpayer-owned entity to take that approach. As I say, I hope to have a productive discussion with Channel 4 as a Minister, because this is not something where we are seeking to undermine the very thing that we all value.

The Chair: Just pushing you a bit on that, would you have expected the board to have indicated that they had considered and identified the benefits and disadvantages of a proposed privatisation and come to a particular conclusion? Is that something you would expect a public body to do?

Julia Lopez: It is the duty of any board to think not just about the short-term sustainability and successes of an organisation but about how sustainable it is over the long term. I would expect and hope that any board member would look objectively at the landscape as a whole, not just at how Channel 4 has done in the last year or two, looking backwards. Particularly, an argument has been made that it has had a very good financial year, but we also have to look at that in the context of the pandemic, where so much of our society has effectively moved to the home and to online and television viewing. It would be expected that there might be a bit of an advertising uplift, certainly, over the last period of time.

The Chair: Let us move on and discuss the benefits and disadvantages of privatisation.

Q63 **The Lord Bishop of Worcester:** Thank you very much for coming. I want to talk a little about the remit of Channel 4, thinking about what you have said about protecting and enhancing Channel 4 and everything that is recognised to be a value about it.

I am thinking about the benefits and risks of strengthening or codifying the remit. Several of our witnesses have suggested that this might be difficult. There are some aspects of the remit that are very easily tracked by quantifiable metrics on news and so forth, but some previous witnesses, including Lord Burns and Helen Weeds, have warned of the incentive for a new private owner to attempt to chisel away at the remit or lobby for changes once they have taken it over. One area, for example, is the qualitative aspect that is set out in the Digital Economy Act 2010: that Channel 4 demonstrates innovation, experimentation and creativity in the form and content of programmes. That is less easily quantifiable.

Just as an aside, I have found it rather interesting that those who have argued against privatisation have argued that in order to protect innovation and creativity, Channel 4 needs to remain in public ownership, which is not normally the argument that you hear against privatisation. Can you talk a bit about how you see the remit, whether it will need to be strengthened and whether strengthening it to any large degree might put off potential buyers?

Julia Lopez: From my understanding so far, Channel 4's public service broadcasting remit is one of the things that makes it very attractive to a

potential buyer. We have a thriving PSB sector, in the sense that ITV is a public service broadcaster; Channel 5 is a public service broadcaster. I do not think that private sector ownership would crowd out creativity within Channel 4. As I say, it is a key part of its brand, and that is what makes it attractive to a younger audience. That audience and that brand is what is attractive, potentially, to a buyer.

In so far as we were minded to proceed with a sale, we would be looking not just at the money that we would get from any sale but the broader question of value. What is offered by any potential buyer in terms of the public service broadcasting remit is something that we would be considering alongside whatever price was being proposed.

There are ways in which we can make sure that that public service remit is safeguarded in future. That includes the fact that Ofcom will be the licensing body and will be looking at the public service broadcasting remit against delivery when it comes to licence renewal. We are looking at these issues not just in terms of Channel 4 alone; we are looking at the whole landscape, and looking at issues such as prominence and so on. For any future buyer, the PSB remit is an asset of Channel 4 rather than something that they would necessarily seek to chisel away. I do not know whether Robert has any further thoughts on it.

Robert Specterman-Green: I would agree with that. If you look at the state of the broadcasting sector at the moment, it is increasingly competitive. The search for eyeballs, as they say, means that the kind of content that Channel 4 is known for, the reputation the brand has, is arguably precisely the kind of space that existing or new entrants may be interested in. It is precisely those aspects that you were questioning that could be very appealing to a potential new buyer, were the Government to decide to go down this path.

We do not see this as a binary zero-sum game between the remit as it currently stands and different ownership on the other side. It is interesting to note that other commercially owned public service broadcasters spend more on original content than Channel 4 does. That is a useful pointer to how private ownership and a true public service output can co-exist.

The Lord Bishop of Worcester: If the privatising were to go ahead, would you expect the remit to be strengthened or codified, or would you not see a necessity for doing that?

Julia Lopez: This is a question that we would look at as a next stage. At the moment we are still in consultation. I do not want to be too prescriptive about any potential remit or any changes. We would not be wanting to tighten the remit particularly, but we would not necessarily want to move away from it either. It would be a key part of the negotiations. In so far as there would be a competition to buy Channel 4, we would not, as I say, just look at how much people were offering for it but at the extent to which they would want to adhere to the public service remit that we set out. As Ministers, we would have to make

decisions, which have not yet been made, about which qualities of that remit we would be prioritising.

Lord Lipsey: I see these questions about remit, but I wonder whether the most important thing is not about the remit but about the culture. We all know that when a big organisation takes over a little organisation—say if ITV took over Channel 4—it tends to be the big partner whose culture predominates. The most impressive thing to me about Channel 4 is related to culture. When that young lady got into the US Open final, it was Channel 4 that came straight out and bought the rights to it so that we could all watch it live into the small hours.

I am interested, therefore, to see whether you think there is any threat to the current culture of Channel 4 if you were to go down the privatisation route.

Julia Lopez: That would depend on the nature of any purchaser. That would be something that I would want to be looking at when we were having those discussions.

I do not think it is helpful to view privatisation as a threat to Channel 4. There are challenges to the future of Channel 4 if it does not find a different way of being financially sustainable. Then you have other risks that present themselves. I understand the point you are making. It would be something that I would be minded to consider when looking at any purchase, but that culture can be safeguarded if any purchase is structured in the right way.

Robert and I have touched on it before: the value that Channel 4 has to any future purchaser is precisely around some of those cultural elements that you touch upon. It would be strange if the very thing that attracted a buyer to want to purchase Channel 4 would be the very thing they started to dismantle as a matter of priority.

Baroness Stowell of Beeston: There have been quite healthy differences of opinion between some of our witnesses who are in favour of privatisation around the need for or even the opportunity of privatisation being a moment when the remit could be more codified and more prescriptive, which would be a way of locking this in as a public service channel, versus other people who see that, in order for it to thrive in the way they would want to see it thrive in the future, it has to be less prescriptive and it has to be set free. From what you have said already, you seem to be suggesting that you would at least be sticking with the status quo, if not becoming a little bit more prescriptive. I do not know whether you want to clarify that.

If I can just ask a supplementary before you do so, one of the reasons why we are interested in this is that the other thing that has been quite interesting from our range of witnesses is differences of perspective in terms of what is meant when the word "remit" is used. For some people, that seems to include things like quotas. I just wondered what you as a Minister, and the department more broadly, think you are talking about

when you talk about remit. What is in the remit?

Julia Lopez: That is a really interesting question. It is something that I have touched upon in discussion with officials in terms of the point at which you start to stifle creativity because you are too prescriptive on remit. If we decide to move ahead with sale, what is the balance around making sure that any future Channel 4 serves what we hope it will serve?

In terms of remit, we want distinctively British content, a certain percentage of programming that is commissioned in the independent production sector, a regional presence or at least regional content, and the traditional remit for Channel 4, which is to provide alternate perspectives. At what point, as I say, does being too prescriptive on the remit start to stifle creativity and start to make it difficult for the channel itself to thrive? Those are live questions and debates that I am having with officials. I have not fully developed my thinking on this yet, being fairly new to the role. Robert, I do not know whether you have any thoughts.

Robert Specterman-Green: We want Channel 4 to remain a public service broadcaster. All public service broadcasters already have codified remits. Channel 4 has one now. It is true, as the Lord Bishop observed, that some aspects of that remit are quantitative in terms of percentage of spend and number of hours on particular types of output, and then there are qualitative aspects as well. In the case of Channel 4 currently, it is about being slightly alternative, distinctive and appealing to certain audiences.

Those are all things that, as I and the Minister have said, we believe would be attractive, were the Government to decide to change the ownership, and that, given the dynamics of the market, a potential buyer would be interested in retaining. There are details about exactly where you calibrate each of the various variables, but they are already key elements of how PSB licences and remits are constructed and are issued. For me, it is not a question of whether but exactly how you set that going forward.

Baroness Stowell of Beeston: When we get a bit further on in this session, I might come back at this from a slightly different angle. Thank you very much.

Viscount Colville of Culross: Good afternoon. One of the things everyone has talked to us about—you have talked about this in your submission—is that Channel 4 is diverse and risk-taking. We have heard again and again that that is something that people value. However, if you do have the remit that you have just suggested, which is British content, lots of spend on indies, regional content and alternative perspectives, we have been told by various people that it would probably limit who the potential buyers would be to existing commercial PSBs in this country, such as ITV or Channel 5.

Those PSBs do distinctive British content and they spend money on indies

and regionals. However, they do not have that risk-taking content. That is something that people really do value. I wonder how important that is for you when you look at your considerations for how the remit should be and who the future owner should be. How are you going to maintain what makes Channel 4 so very exciting?

Julia Lopez: As I have touched upon, the appeal of Channel 4 to any potential buyer is actually more in relation to the audience that it attracts, and that is a young audience. One of the reasons it attracts a young audience is because of its risk-taking content, where it slightly pushes the envelope on things. It is dangerous to think that some of these things are mutually exclusive; they are not. I do not know, Robert, whether you have any thoughts on that.

Robert Specterman-Green: I would agree with that. We do not see it as that binary choice: that you can have the kind of content and risk-taking that you are referring to only in its current form. Where is the evidence that, as one of your colleagues said, a private owner would not be as innovative or as risk-taking, especially if those are the terms or areas of focus that we would be looking for, were we to take this next step?

Viscount Colville of Culross: You would have to add it into the remit, though. If you look at Channel 5, which is a very good exemplar of a privately owned PSB, it absolutely does do lots of distinctively British content, night after night, but it is not risky. I would like to understand how you think you can make sure that you maintain that.

Julia Lopez: As Robert said, some of these things are already prescribed in its existing remit. It would be a matter of taking some of those things forward. That is part of its appeal. If any future owner was minded to move away from that—they may not be able to if it was in the remit—they would have to take into account that they might be declining their own audience share. As I say, I do not see why it would be in their interests to do that. I believe that the percentage of content that is commissioned in the independent sector is prescribed as well, is it not? Channel 4 goes above and beyond that. We could look at whether to increase that figure, but, again, these are discussions that we would have to have if we were minded to sell.

Robert Specterman-Green: There are probably three stages that you would think about. The first is, were the decision to be taken to sell Channel 4, in the competitive process that you could envisage this would be one of the issues that you would discuss with potential buyers. The second stage would be then in the determination of the operating licence, the remit and how you define that and articulate it in the remit. The third stage is then what Ofcom does as the regulator to monitor performance against that remit and any tweaks that are needed. You have distinct moments and then an ongoing phase where you can hold the owner to account as a public service broadcaster with a PSB licence.

As the Minister said, we are looking at this in the round as part of the broader public service broadcasting landscape and the role Channel 4 plays within that. That will be one of the considerations, were we to go to that stage.

The Chair: Just to pick you up on that, how does this play into the timing of the ongoing review of PSBs and the work of the PSB panel?

Julia Lopez: I was due to be meeting the PSB panel today. I shall be meeting it in future. There is the Ofcom report from July, which we are looking at in terms of how we take that forward. We are looking at whether we will launch a White Paper on broadcasting more generally, which we shall come back to you on. Then it is about whether we move forward with having a media Bill and looking at the public service broadcasting landscape in its entirety.

The Chair: The media Bill would cover stuff like prominence and this basket of issues that are out there waiting to be addressed. You may want to comment on this. It seems to us as a committee that it is odd not to have decided what you want the future of PSB to be and to have heard from the PSB panel before deciding on how Channel 4 should be funded and fit into that.

Julia Lopez: I hope to see the PSB panel soon. Ofcom has already looked at this issue, and that is something we will be looking at as well. Then we will be looking at what both Select Committees of the House have said on the public service broadcasting landscape. Once we have looked at all of the responses to the Channel 4 consultation, we will take all of those things and try to formulate an overall view of the landscape and, in so far as we are minded to sell, how that would sit in a wider piece on public service broadcasting, the issues of prominence and other issues such as the gatekeepers that are emerging for content and so on. How do we make sure that the whole landscape thrives going forward? We all want to make sure that there is authentically British content there and that we are looking at how best to serve our television audiences with content that we think is substantial. Rob, did you have anything else to add?

Robert Specterman-Green: The PSB panel is an advisory panel. It is not making decisions on its own responsibility. It is advising Ministers. It has met about five times. We have had lively and stimulating discussion about Channel 4 and many other issues. As the Minister said, we are advancing all these considerations in parallel. Were we to get to a White Paper, that is where we would bring all of these things together.

The Channel 4 question is not the only one where we are trying to lead a debate. We also have a consultation on the regulation of video on demand platforms as well, which we see as part of this. We have been working with Ofcom on the work it has been doing to review the PSB landscape. I would encourage the committee to see our work on Channel 4 very much as part of that broader review.

Q64 **Baroness Rebuck:** Thank you for being with us, Minister, especially just a few weeks in. My question is about the independent production sector in the UK. It is currently thriving, as you said in your introduction, possibly thanks in small measure to the establishment of Channel 4 originally as a publisher-broadcaster.

Now, the world has changed, as you also said, and many of our witnesses have referred to the number of very large production companies that might be somewhat less reliant on income from UK PSBs, although I imagine that would still remain a large part of their income budgets. We have also heard from many small, newly established production companies, especially outside of London, that claim that privatisation could have serious consequences for them.

For me, perhaps the key question, which you referred to just now, is what a flourishing creative ecosystem actually looks like. Alex Mahon suggested that it is one where large companies flourish and barriers to entry are very low. That is something I recognise from my background in book publishing, where you get a constant creative renewal and opportunity.

In the consultation document, there is mention of the importance of Channel 4's regional headquarters in Leeds and spending on programmes to represent communities across the UK, but I could not find any mention of support for small and emerging production companies; maybe that is my problem. John Whittingdale did refer to Channel 4's support for small indies and start-ups this summer and suggested it was an area where the remit might be changed in the event of privatisation. I am interested in your thinking in this particular area. Is that your view? Do you have a different view? Perhaps, as a question for Robert, have the Government made any impact assessment of privatisation on the smaller regional indies? Minister, I will start with you.

Julia Lopez: Thank you for the question. As you say, let us look at the history of why Channel 4 was set up in the first place. That was to stimulate independent production. It has been extremely successful in that. The sector's success now is not just down to Channel 4. Channel 4's slice of that cake is now smaller than it was. There are other people who are producing more unique UK content. The landscape has changed very substantially.

You would also need to ask whether a Channel 4 in private hands would be minded to reduce its network and engagement with small and independent production houses, or whether that is actually one of the reasons why it is such an attractive proposition. I would push back on any idea that the ownership structure of Channel 4 would completely change the channel's approach to the smaller production houses.

None the less, I will want to be looking at all of the consultation responses we have received on this. I want to support that sector. It is an important part of the creative economy. It is about people starting small and then being able to develop into larger broadcasters but also keeping that sense of testing boundaries. That is the key part of

creativity, pushing against what is out there already; often, it is smaller players who can do that best. It is something that I will be testing as an argument that has been put to us: is the smaller independent sector at risk, if we were minded to sell? I will also see whether there is anything we could do in terms of support around that or any discussions we could have with any potential future owner on that theme.

I do not know whether Robert has anything else to add on that, but I would also say that the Government are extremely supportive of this sector. We have put creative tax credits there to support it. The issue that I see is certainly not one of demand for production; it is one of supply at the moment. The sector is at risk of becoming a victim of its own success, because there is not always the supply chain of skills to keep up with the demand for UK production. We have to make sure that we are trying to address any concerns as a reality rather than something that people fear might happen.

Robert Specterman-Green: As you acknowledged in your question, one of the founding rationales for the establishment of Channel 4 was to grow the independent production sector in the UK, and that has been a huge success. But it is a mistake to see Channel 4 as the only factor in the current ecosystem that is supporting independent production. As the Minister mentioned, the Government have put in place a number of interventions, from tax credits to, more recently during the pandemic, the film and TV production restart scheme, which excludes the big players and is deliberately intended to support the smaller ones. There are also the protocols that we put in place to allow television and film production to start again.

It is quite interesting to look at some of the data. It shows that Channel 4's external commissioning spend on the smallest production companies is dwarfed by, say, Channel 5's equivalent spend. It is about 36% of Channel 4's external commissioning spend on companies with a turnover of under £25 million, compared with 76% of Channel 5's. I refer to those statistics just to stress the point that Channel 4 is only one of several players here. This is not a question of whether we should support the sector but a question about the balance of that, taking into account other considerations.

You asked about an impact assessment. The Government have not taken a decision yet. As and when they do, we would obviously look at the impact.

Baroness Rebuck: In response to that, I would go back to my colleague's question about what they are spending the money on and the type of programming. What Channel 5 puts out is very different, as far as I can see as a consumer of television, from what Channel 4 does.

Can I ask you about Channel 4's current aim of spending 50% of its budget on nations and regions by 2023? EY's report, which was commissioned by Channel 4, reckoned that a buyer could keep to that target of 50% but lower the actual cash spend. I believe it looked at ITV's

commissioning as a proportion of revenues and applied it to Channel 4, which would result, in EY's report, in an 18% reduction in jobs in nations and regions and some £500 million to come out of GVA in the supply chain. Is that something that you are thinking about in terms of revision of the terms of trade in order to avoid this kind of gaming of the system?

Julia Lopez: We would question some of the evidence that the EY report is based on. It makes some rather interesting assumptions about how any new private owner would act on some of these questions. We have talked before about some of the mechanisms by which we could—I do not know whether “enforce” is the right word—ensure that any PSB remit was being adhered to. That includes looking at the Ofcom licensing terms and so on. Robert, I do not know whether you have anything to add to that.

Robert Specterman-Green: There are a number of assumptions in that EY report that are both unevidenced and, in our view, rather questionable. If you look at the state of the broadcasting sector and the way it is evolving, you might come to some different conclusions.

Baroness Rebuck: I think I know what your answer to my last question will be, but I will ask it anyway. If privatisation goes ahead, would you consider some of the sales proceeds being ring-fenced as a fund to stimulate indie production and help grow smaller independents? That would establish a safety net—it may or may not be needed; there are two points of view on that—which would, in a sense, take us back to the original establishment of Channel 4 and would be another way of making sure that, in going ahead, if your decision was to go ahead, you would at least have a safety net that would address some of the real concerns we have heard from some of the smaller indies.

Julia Lopez: You made the point about whether it was needed, and there is a question as to whether it would be needed. Would a Channel 4 under different ownership act in a different way in relation to that particular part of the independent production sector? If we saw concerns, there would be a question for DCMS as to the right policy intervention to support a sector that we very much value and want to see thrive.

That would require negotiation, no doubt, with the Treasury. Negotiation with the Treasury being what it is, I would not want to make any statements at this stage about that. You can look at DCMS's record in how we have supported the sector and take heart from that. As I say, we have shown how much we value independent production. The market has shown how much independent UK production is valued. The growth of that sector speaks for itself. As Robert said and as I mentioned, that sector is not entirely dependent on Channel 4 being in public ownership.

The Chair: Robert, you referred to the EY report and some of the scenarios it paints and some of the underlying assumptions. We might write to you, because we cannot explore it in great depth here, and invite your rebuttal of some of the points in the report that you indicated you have looked at and worked on.

Baroness Bull: Baroness Rebuck started to do this, but I wanted to connect Lord Colville and Baroness Rebuck's points about risk-taking and the role of small independent production companies and start-ups, people boldly treading paths that have never been trodden before.

Lord Grade was pretty horrified when I suggested that indies may not always want to be on a trajectory from small to stratospheric. He seemed to think that I had gone slightly mad, but there may be creatives who do not want to work at scale but want to explore new ideas within an environment. What Channel 4 has been really strong at—we have not mentioned Film4, of course—is in supporting maverick creators into stellar international careers. My concern is not about the proportion of spend on indies but the proportion of spend on risk-taking indies, hence bringing together the two questions. I am not convinced I have quite heard an answer on that. Maybe you could say a little bit more.

Can I add to that the question of diversity in the creative industries? You will have seen the Social Mobility Commission's report, and it is not the first one to talk about the really woeful lack of diversity in the creative industries. Much of that is systemic and needs to be addressed right back in education, but it is clear that we are going to need policy interventions to address this. Are you confident that those policy interventions can be made without the public ownership of Channel 4, without having a PSB that allows certain levers to be pulled, in terms of carrots to be dangled and sticks to be wielded?

Julia Lopez: It is a big question. Being fairly new to my role, I do not know that I can answer it as fully as you might want at this stage. I completely understand the point you make. There is always a bit of a tension between creativity and commerce. Sometimes those things can work together and other times people want to have a fairly small outfit. This is about risk-taking rather than just growth. That is an important thing to take into account.

To repeat myself, you should not necessarily equate the way in which Channel 4 behaves as an organisation with how it is owned. The question for us, therefore, is about how we retain what is uniquely Channel 4 in any sale, should we be minded to go ahead, and how we can codify that risk-taking.

As I say, perhaps I have not given this particular issue enough thought. It is one of the things that I will want to be looking at in some of the consultation responses. I know it will be a concern to some of the people who have contributed to that consultation. Is the only policy response to that the public ownership of Channel 4? There are probably other things we can look at to make sure that entire creative economy is maintained. Robert, I do not know whether you have anything to add to that.

Robert Specterman-Green: To build on what the Minister has said, Film4 has played an important part in the wider film landscape, but it is just one part. We have a brilliant organisation called the British Film Institute, which is an arm's-length body of DCMS that does great work in

supporting new screen content. Indeed, I would suggest that risk-taking should not just be limited to what you see on the small screen; it is what you see on the videogame screen, the cinema screen and right across the creative industries, which are hugely successful in this country precisely because of some of these new techniques. CreaTech, the merging of creativity and technology, is one very current example of that.

You asked about diversity. Again, no one should think that Channel 4, whoever owns it, is going to be the silver bullet to solve some of the diversity challenges that you suggested. There are a number of initiatives that need to go further. There is Project Diamond, for example, which is tracking representation on and off the camera. Through the Creative Industries Council, which is a joint government-industry body that we and BEIS convene with the creative industries, we have had a focus on diversity. There is a diversity pledge that was adopted in the recent past. We are very keen to hold the industry to account on that as well.

Julia Lopez: Just on the diversity aspect, the Secretary of State has come in and made her priority accessibility of the creative industries. In so far as people believe that the creative industries are more accessible to them, diversity will follow.

One thing that I am very keen that we do is to look further back in the skills pipeline, to see whether in our education sector we are really understanding just what high-quality jobs there are in the creative industries and that the creative industries are not just some niche part of the economy any more but a central driver of our competitive edge on a global scale. The education system must follow and accept that as an exciting reality for young people not just from one background but from every background. I was state-educated and I want people who are in state schools to understand that it is not a dead-end career path to go into the creative industries. You are going to acquire lots of transferable skills, you are going to have longevity and you will probably have a pretty fulfilling career.

We have to look at the idea that the ownership of Channel 4 is only way to stimulate diversity, accessibility and creativity. There are many other things that we need to be looking at, which is why we are looking at the issue of ownership alongside lots of other issues about what kind of creative economy and public service broadcasting landscape we want in the future.

Baroness Bull: I am very glad to hear you recognise the systemic challenge, because I certainly was not suggesting that Channel 4 should own and solve this problem. May I suggest that one suggestion you might make to your colleagues is to look at the careers education statutory guidance, which currently does not include the word "creative" or suggest that creative careers might be a careers option? That could be an easy win.

Julia Lopez: That is certainly something I would be only too happy to look into. My sister, who is both an artist and an educator, is passionate about this area, so you are not the only one to raise this point with me.

The Chair: This committee has looked at schools and careers across the creative industries on a number of occasions and made several recommendations. As part of your reading, we might send you a summary of the inquiries where this has been a recurring thing for us, alongside our thoughts on the apprenticeship levy—which fortunately we do not have time to address.

Julia Lopez: I very much welcome that, because the issue of skills and skills supply is one that comes up in the conversations I have with the creative industries.

Lord Stevenson of Balmacara: The last exchanges have been very helpful. I would back you all the way on that. It is nice to hear the words from a Minister, even if you feel that you were not properly briefed at the time, because it is great to have something on the record on that. Thank you also for name-dropping the BFI. As former director of the BFI, we very seldom get praised, and I am very grateful for that.

I just want to provide a little bit of context, in the sense that we sometimes forget our own history on this. You have touched on this, and I am hoping that I will get a “yes” at the end of it. Can you just reassure us that you have a sense of this history in your approach to the decisions you still have to make? These are very complicated decisions, and there are loads of trade-offs and a squaring of circles that seem to me to be quite tricky. I am sure you have grasped that and have been briefed on it. The way in which we in Britain have developed our public service broadcasting is such a unique example of the way in which broadcasting does contribute across that range of activities that we all care about so much in terms of democracy, informing, educating and everything else. The Reithian principles that inform that go back a long way and are really almost part of our DNA.

That having been said, the introduction of broadcast television services was done carefully and with concern for the way in which they would interact. I am sure you recognise this; I am not telling you anything new. We brought on ITV, brought forward a second BBC channel to develop areas that were not being covered by the two mainstream channels, and then we had Channel 4 and then Channel 5. If you look back, it is a miracle of public policy-making in some ways. I do not why we should be surprised about it.

My question really is: “Will that be in the back of your thinking?” You have touched on the need to ensure that we look at the whole of the broadcasting sector in relation to how you are going to treat the ownership issue. I would argue—I am not necessarily expecting a “yes” to this bit—that the ownership issue is one of the lesser problems you have been grappling with. You seem to be more focused on the investment and the concern that the body that is currently under the

ownership of the Government, Channel 4, will not survive against its best expectations and our best wishes for it to do so. That may or may not be the case. I am not sure that the ownership issue is at the top of that.

The question I want you to get you to focus a little bit on is this. One of the things that Channel 4 did when it was being produced was to be the engine through which the smaller creative industries that we had at that time could grow and develop. You have acknowledged that as being a success. It seems slightly perverse that at this point, when they are beginning to flourish and beginning to understand what they now own and what intellectual property they have, amazingly—they would not have got that if those were deals with other channels—you would disturb the equilibrium by moving perhaps too fast or too aggressively in that direction.

This is the question I would like to have the “yes” to. Will you think very carefully about that balance? Channel 4 was the agent by which these companies exist. You have touched on the fact about the balance between the spend in Channel 4 and other channels in relation to the size of those; Robert produced some figures that were interesting, and perhaps he could write to us with more detail about that.

Of course, the point that Viscount Colville made, also picked up by Baroness Rebuck, is that you will not get the experimental, edgy, reaching out to audiences not currently served from the very big established channels, because they will be facing in other directions. It is really important—this is the question—that you will think about the range and diversity of the independent sector, perhaps through your sister’s engagement with it, just to make sure we are not throwing out the baby with the bathwater on this. This seems to me to be absolutely vital.

Even if there is success today, you are painting a picture of difficulty and possible problems if the advertising market matures, changes and goes digital. The channel thinks it can cope with that. It may be right; you may be right; we all might be wrong. The important thing is not to lose sight of the fact that Channel 4 exists to create a set of creative industries from which we all benefit in every way. It would be terrible if that was just something that happened by accident, because you did not quite think it through in the end. Will you be thinking about it?

The Chair: He wants a “yes”.

Julia Lopez: Yes. Just to underline, there is a rather defensive attitude that has been taken on this question. We all have a shared aim, which is to see Channel 4 thrive long into the future and to see the independent production sector thrive long into the future. The question is about how best we do that. Is private ownership something that will help with those policy aims?

With Channel 4 being so dependent on advertising revenue, which we suspect is going to be increasingly volatile, and given that independent production and content costs will increase with more competition from

other providers, this is about how we create a financially sustainable model. Those are the questions that we really will be focusing on. As I say, we have the same aims. It is just a question about what the best means of sustaining that very delicate ecosystem is.

Q65 Lord Foster of Bath: Thank you both for being with us. It has been absolutely fascinating. I want to ask two questions. The first picks up where we left off on the question that was asked earlier by the Chairman in relation to the timing of the decision. Basically, you said that the PSB advisory panel would talk to you, you would look at all of the evidence that you got in response to the consultation on Channel 4 and, when you had looked at both of those, you would make a decision.

The implication of that is that you are prepared to make the decision before you have even published the White Paper and certainly before you have got the media Bill. I wonder whether that is correct. Surely any bidder, if Channel 4 is to be privatised, would want to know about the ecology in which they were expected to operate. Could you just explain your thinking on the precise timescale you have in mind for a decision on this issue?

Julia Lopez: As I say, we will be looking at the consultation responses. That is going to take some time to work through. We do not want to drag this out, because we appreciate that having this question hanging over Channel 4 is unhelpful to the people working within Channel 4. We want to have the matter settled in the not too distant future. I might have to defer to Robert on the timing of the White Paper.

As I say, we want to look at this within the whole decision-making process on what the future of public service broadcasting looks like. In so far as we are minded to sell, that would be something that would go within the media Bill.

Robert Specterman-Green: I cannot give you a precise date. We are working through the considerations with the new ministerial team in DCMS.

Lord Foster of Bath: I am sorry. I absolutely understand, given the difficulty of getting parliamentary time and all that, that you cannot give us timescales. But within the sequence of events, surely it is important that the future public service broadcasting ecology has been determined and is clear before you can make a final decision on Channel 4. The purchaser will need to know about that ecology and where they are expected to fit in. If it is any earlier, I would think that is rather difficult. Maybe you do not.

Robert Specterman-Green: The Government would set out their vision for the whole ecosystem, including specifically around what they plan for the future of Channel 4, in the same place.

Lord Foster of Bath: Yes, in the White Paper, presumably.

Robert Specterman-Green: If the Government were to decide to sell Channel 4, there would then be legislative changes that would be needed. It is currently a public corporation; it would need to be converted into an entity that could be sold. It would clearly make sense to use the same legislative vehicle to enable that alongside any other reforms that the Government intend to take forward to strengthen the public service broadcasting system. We see all of this travelling together in the way that you outlined.

Lord Foster of Bath: Thank you. That is very helpful. You are saying that within the White Paper you will set out your vision for public service broadcasting and your vision for the future of Channel 4 at that time, but you would not be making the decision on Channel 4 until you have set that out in the White Paper. I am sorry; I am just trying to be really clear on where we stand.

Robert Specterman-Green: The White Paper will set out the Government's position on all of those issues.

Lord Foster of Bath: It will set out its view on all of those things, so no decision will be made until there is a White Paper.

Robert Specterman-Green: The White Paper will be the vehicle for communicating the Government's decision.

Lord Foster of Bath: Thank you. That is very helpful. My second question picks up on a number of the issues that have been discussed. We have already spent quite some time talking about the remit, quotas and purposes, and we have even talked about the culture of the organisation, and yet when we looked at each of those, Minister, in relation to culture, which was raised by Lord Lipsey, you said that you would be minded to consider the culture in any negotiations. In relation to the remit of Channel 4, whatever that means—it could include quotas or not—you again said that the remit would be part of the negotiations. There is nothing really fixed in your mind, because presumably if somebody offered you £1 trillion but for a very small remit, you might be minded. It would be helpful to have clarity on that.

I want to take it one stage further, because you said you wanted Channel 4 to remain a public service broadcaster. If I can remind you—this is based on evidence from a 2009 House of Commons Select Committee on public service broadcasting—Michael Grade, during the financial crisis of that time, gave evidence to the committee and he said of a private sector company—ITV—that ITV would like to remain a public service broadcaster, but that this was conditional on two things: first, he wanted regulatory constraints, including on ITV's original content obligations and on sale of television advertising, to be relaxed; secondly, he placed a value of £35 million on the spectrum that ITV receives as a public service broadcaster. He said, "We will deliver £35 million of PSB value ... either in cash or in kind, whatever the policy-makers decide they would like".

The implication of that is that a privately owned Channel 4 could basically

turn around at any time and say, "We do not want to stay as a public service broadcaster. We could get rid of most of our remit, our quotas, our purposes or our culture as we choose". How are you going to build the protections into a sale if we already have an example of a private sector company threatening to pull out, in return for which it did get relaxation of its remit?

Julia Lopez: This is why it is so important that any question of sale is viewed in the wider context. If a future owner was minded to do that, they would need to be aware that they would be losing something as well. They would be losing prominence or other things of value that we, as the Government, can wrap around any entity listed as a public service broadcaster. It is for us to consider what the incentives are for a broadcaster to want to remain a public service broadcaster and how we deal with the licensing process through Ofcom to maintain that desire to be a public service broadcaster. I do not know, Robert, whether you have anything else to add on that.

Robert Specterman-Green: ITV remains a public service broadcaster because it is continuing to deliver its remit, which is monitored by Ofcom. Licences come up for renewal from time to time, and clearly these are considerations that you would take into account. As you acknowledged, we have said that we wish for Channel 4 to remain a public service broadcaster.

Lord Foster of Bath: Time is now very brief, but I am just making the point that you can wish for it to remain a public service broadcaster but you cannot insist on that. You can want it to be a public service broadcaster but it could, as ITV successfully did in 2008-09, have the remit reduced. The consideration of the remit and all the things we talked about are not protected if you go down the privatisation route.

Robert Specterman-Green: That is arguably true of any of our public service broadcasters, whether they are privately owned or publicly owned. The BBC has a negotiation and a discussion with Ofcom, which now regulates it, around its operating licence. The nature of the ownership is not the unique factor in that kind of discussion.

Lord Foster of Bath: Having a publicly owned public service broadcaster is surely very different from having a privately owned one. That surely is demonstrated at the moment by the ability of Ofcom to very heavily restrict or cover what Channel 4 does and, for instance, the royal charter in relation to the BBC. The BBC could not pull out of being a public service broadcaster. You would just sack the board and bring in another board.

Robert Specterman-Green: I have given my view on where I think the levers are.

Q66 **Viscount Colville of Culross:** Your new Secretary of State has said that she does not think the BBC will exist in 10 years' time. What do you as a Minister think? Is there a role for publicly owned channels in our

ecosystem?

Julia Lopez: I am not sure that is a fair characterisation of what the Secretary of State said. We acknowledge that there are challenges to the future of public service broadcasting, which is what we are trying to address and deliver on through the work we are doing.

Viscount Colville of Culross: Do you as a Minister think there is a role for publicly owned PSBs?

Julia Lopez: Do I think there is a role for the BBC going forward? Yes, of course.

Viscount Colville of Culross: Is there a role for Channel 4, which is still publicly owned? That is what we are discussing.

Julia Lopez: On the ownership of Channel 4, the question for me is about how we make sure that Channel 4 thrives and succeeds long into the future in a very dynamic, fast-changing broadcasting landscape. It is about trying to maintain that investment in British content, trying to have a thriving independent production sector and trying to have content that is relevant and important and serves broader public interests when it comes to what our constituents want to watch. Those are the questions for me. I am concerned about the ownership structure in so far as it serves those policy aims, but I am not ideological about the ownership structure.

Baroness Stowell of Beeston: I will try to be brief. Just to go back to the question of remit but in a broader context, in a way, when we look at remit and discuss it in this context, we are really describing what a channel is required to do and how it should go about doing it. Some of that is currently prescribed in legislation; some of it is in the hands of Ofcom as the regulator. As you look at public service broadcasting in the round—again, this is taking my leave from my colleague; I am asking a question and hoping the answer is “yes”—will you also be looking at the possibility of defining, in very simple basic terms but enshrining it in legislation, the purpose of each of the public service broadcasters that make up the whole picture—the ecosystem, the ecology or whatever word we want to use?

That might be a way of also making sure that you are able to preserve something, which is the fundamentals of public service broadcasting, that allows the flexibility around the different and changing nature of the world as things evolve. When you are looking at public service broadcasting in preparation for the White Paper, which we have been able to establish today very helpfully will be the vehicle through which you announce your decision on Channel 4, I would hate to think that there was not a way of considering the future of public service broadcasting that is not necessarily as tightly prescribed in legislation as the way it is at the moment, in a rather higgledy-piggledy way from channel to channel.

Julia Lopez: The extent to which we are prescriptive is an active policy discussion that we will have to have. Does that prescription come via the Ofcom licence? Does it come via legislation? What will be the impact of that level of prescription on other questions about the sustainability of the sector? All of these things have to be determined in the round. These will be things under active consideration. I cannot be more definitive at this stage, I am afraid.

The Chair: Minister, thank you very much indeed for your evidence today. It has been very useful. It has been particularly reassuring to hear you describe how the future ownership of Channel 4 fits in to taking a wider view about PSBs and the wider sector. You have given us lots to think about and responded to our questions. We got into quite a lot of detail on some issues. We will write to you to ask for some further information, particularly about the EY report and one or two areas that you have addressed. I know, like everybody else, you are under huge pressure, but, given that we hope to report quite soon, it would be great if you could encourage officials to respond as quickly as they can to our letter. Thank you very much indeed, Minister and Robert.